



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Bill #	SB0268
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Title:	Cut surface mines coal severance tax by one-half
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Primary Sponsor:	Bales, Keith
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Status:	As Introduced
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|---|---|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2008</u> <u>Difference</u>	<u>FY 2009</u> <u>Difference</u>	<u>FY 2010</u> <u>Difference</u>	<u>FY 2011</u> <u>Difference</u>
Expenditures:				
General Fund (01)	\$0	\$0	\$0	\$0
Revenue:				
General Fund (01)	(\$9,435,591)	(\$9,038,619)	(\$9,328,504)	(\$9,457,562)
State Special Revenue (02)	(\$487,938)	(979,265)	(1,453,814)	(1,841,275)
Debt Service (04)	\$1,279	\$1,264	\$3,753	\$3,788
Long Range Building Program (05)	\$16,151	\$15,965	\$47,402	\$47,855
Other Trust Funds (09)	(\$9,401,795)	(\$9,005,213)	(\$9,229,315)	(\$9,357,426)
Net Impact-General Fund Balanc	<u>(\$9,435,591)</u>	<u>(\$9,038,619)</u>	<u>(\$9,328,504)</u>	<u>(\$9,457,562)</u>

Description of fiscal impact: This bill decreases the tax rates by 50% for open pit coal mines during the next four years. The rate will return to previous levels after four years if no new applications for new mines have been submitted. If applications have been filed, but no new mining actually begins within 10 years, the rates will also return to previous levels. The bill doubles the allocation percentage from the coal severance tax to various funds, so these funds will have small increases in revenue. The change in tax rates causes a 50% decrease in coal trust deposits and about a \$9 million decrease in the general fund yearly.

FISCAL ANALYSIS

Assumptions:

1. This bill decreases the tax rate for coal produced from open pit mine to 5% from 10% for coal under 7,000 BTU per pound and to 7.5% from 15% for coal over 7,000 BTU per pound.
2. The coal severance tax rates for underground coal mines do not change with this bill, and there is one underground mine in Montana.
3. The reduced tax rates will continue through FY 2011, with or without an application for a new coal mine.
4. The decrease in coal severance tax revenue was estimated using HJR 2 for FY 2008 and FY 2009. The decrease in revenue for FY 2010 and FY 2011 was estimated using projections from OBPP.
5. This bill changes the allocation of the coal severance tax. The following trusts are allocated twice the percentage as they are under current law:
 - Long Range Building Program
 - Local Impact Account
 - Natural Resource Account
 - Parks Trust
 - Renewable Resource Debt Service Fund
 - Capitol Building Art Trust Fund
6. The result of the decreased tax rate and the change in the allocation scheme is shown in the fiscal impact table. The trusts shown in assumption 5 have slightly increased revenue because the total revenue projected is slightly more than 50% due to the one underground coal mine.
7. The general fund receives the remaining revenue after the coal trusts and the other trusts are allocated revenue. Under current law, the general fund receives 26.79% of revenue. After the allocations in this bill, the general fund will receive 3.58% of coal tax revenue. The general fund shows a revenue loss of around \$9 million each year with this bill.
8. The coal trust bond fund receives 50% of the coal severance tax under the current statute and this bill. The coal trust revenue is distributed to the Treasure State Endowment Fund, the Treasure State Regional Water Fund, and the Big Sky Economic Development Fund. The decrease in the tax rate causes a decrease in the amount of revenue distributed to the trusts each year by around \$9 million each year. This is shown in the following table.

SB 268 Revenue Impact on Coal Trust Bond Fund Allocation				
	FY 2008	FY 2009	FY 2010	FY 2011
Treasure State Endowment Fund (09)	(\$4,702,176)	(\$4,503,870)	(\$4,618,410)	(\$4,682,502)
Regional Water System Fund (09)	(\$2,351,088)	(\$2,251,935)	(\$2,309,205)	(\$2,341,251)
Economic Development Fund (09)	(\$2,351,088)	(\$2,251,935)	(\$2,309,205)	(\$2,341,251)
Total	(\$9,404,352)	(\$9,007,740)	(\$9,236,820)	(\$9,365,004)

9. The coal trust funds earn interest that is used by various state programs. The loss in revenue causes a decrease in the amount of forecast interest revenue. This loss of revenue is shown in the fiscal impact table and included in the fiscal summary.
10. The total revenue loss is \$19.308 million in FY 2008, \$19.006 million in FY 2009, \$19.960 million in FY 2010, and \$20.605 million in FY 2011.
11. The net impact to the general fund is a decrease of \$9.436 million in FY 2008, \$9.039 million in FY 2009, \$9.329 million in FY 2010, and \$9.458 million in FY 2011.

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
<u>Fiscal Impact:</u>				
<u>Revenues:</u>				
General Fund (01)	(\$9,435,591)	(\$9,038,619)	(\$9,328,504)	(\$9,457,562)
Local Impact Account (02)	\$7,349	\$7,264	\$21,568	\$21,774
Natural Resource Account (02)	\$3,903	\$3,858	\$11,455	\$11,565
Renewable Resource Debt Service Fund (04)	\$1,279	\$1,264	\$3,753	\$3,788
Long Range Building Program (05)	\$16,151	\$15,965	\$47,402	\$47,855
Parks Trust Fund (09)	\$1,709	\$1,690	\$5,017	\$5,065
Capitol Art Protection Trust Fund (09)	\$848	\$838	\$2,489	\$2,512
Coal Trust Bond Fund (09)	(\$9,404,352)	(\$9,007,741)	(\$9,236,821)	(\$9,365,003)
<u>Interest Revenue</u>				
Treasure State Endowment Interest (02)	(\$253,866)	(\$500,827)	(745,315)	(896,467)
Regional Water System Interest (02)	(\$122,731)	(\$244,453)	(\$372,552)	(\$489,058)
Economic Development Interest (02)	(\$122,593)	(\$245,106)	(\$368,970)	(\$489,058)
TOTAL Revenues	<u>(\$19,307,894)</u>	<u>(\$19,005,867)</u>	<u>(\$19,960,478)</u>	<u>(\$20,604,589)</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$9,435,591)	(\$9,038,619)	(\$9,328,504)	(\$9,457,562)
Local Impact Account (02)	\$7,349	\$7,264	\$21,568	\$21,774
Natural Resource Account (02)	\$3,903	\$3,858	\$11,455	\$11,565
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Coal Trust Bond Fund (09)	(\$9,404,352)	(\$9,007,741)	(\$9,236,821)	(\$9,365,003)

Long-Range Impacts:

1. If an application for a new coal strip mine has not been submitted by the end of FY 2011, the rates will revert to previous rates and this loss of revenue will no longer occur. If a new application has been submitted but no new mines have commenced production before the end of FY 2017, the rates will also return to previous levels.

Technical Notes:

1. The rating on the Coal Severance Tax Bonds may be reduced by rating agencies with the uncertainties of the coal tax revenues. A lower rating will thus increase the interest rate on bonds and the higher interest rate will be passed through to local entities. This may reduce the state's overall ability to issue debt.

*Sponsor's Initials*_____
*Date*_____
*Budget Director's Initials*_____
Date